

Fiscal Note

State of Alaska
2022 Legislative Session

Bill Version:	CSHB 220(FIN)
Fiscal Note Number:	3
(H) Publish Date:	5/15/2022

Identifier: HB220-RET-PERS-5-10-2022
Title: RETIREMENT SYSTEMS; DEFINED BENEFIT OPT.
Sponsor: HOPKINS
Requester: (H) FINANCE

Department: State Retirement Payments
Appropriation: PERS State Assistance
Allocation: All Other PERS
OMB Component Number: 2866

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below.

(Thousands of Dollars)

	FY2023 Appropriation Requested	Included in Governor's FY2023 Request	Out-Year Cost Estimates				
OPERATING EXPENDITURES	FY 2023	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous			(28,500.0)	(16,500.0)	(13,300.0)	(10,500.0)	(6,800.0)
Total Operating	0.0	0.0	(28,500.0)	(16,500.0)	(13,300.0)	(10,500.0)	(6,800.0)

Fund Source (Operating Only)

1004 Gen Fund (UGF)			(28,500.0)	(16,500.0)	(13,300.0)	(10,500.0)	(6,800.0)
Total	0.0	0.0	(28,500.0)	(16,500.0)	(13,300.0)	(10,500.0)	(6,800.0)

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimated SUPPLEMENTAL (FY2022) cost: 0.0 (separate supplemental appropriation required)

Estimated CAPITAL (FY2023) cost: 0.0 (separate capital appropriation required)

Does the bill create or modify a new fund or account? Yes
(Supplemental/Capital/New Fund - discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version/comments:

Fiscal note updated for amendments made at House Finance Committee on April 21, 2022.

See attached and updated actuarial impact letter from Buck Global LLC dated May 10, 2022, for out year cost impacts through FY 2039, the anticipated year that plans are fully funded.

Prepared By: Ken Truitt, DOA Legislative Liaison
Division: Office of the Commissioner
Approved By: Leslie Isaacs, Administrative Services Director
Agency: Department of Administration

Phone: (907)465-8464

Date: 05/10/2022

Date: 05/11/2022

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2022 LEGISLATIVE SESSION

Analysis

This bill provides certain employees of the Alaska Public Employees' Retirement System (PERS) and Alaska Teachers' Retirement System (TRS) an opportunity to choose between the Defined Benefit Plan (DB) and the Defined Contribution Plan (DCR) of the Alaska PERS and TRS. New employees will have the choice between the respective PERS or TRS DB and DCR plans. Existing PERS and TRS DCR members will be allowed an opportunity to convert to the new defined benefit tier or plan.

The PERS and TRS consulting actuary, BUCK Global LLC (Buck), has calculated the financial effects if this bill should pass as written. The basic result is that there will be a net decrease to the PERS additional state contributions (decreases in FY2024-FY2027, increase in FY2028) and a decrease to the TRS additional state contributions in FY2024-FY2028 due to a change in the sources of contributions to each system and the change in the defined benefit and defined contribution distribution of funding.

Since this bill would take effect on July 1, 2022, there is no financial impact to Fiscal Year 2023 additional state contributions because these amounts for Fiscal Year 2023 have already been adopted by the Alaska Retirement Management Board. If future experience matches the actuarial assumptions used to value the plans' liabilities, the dollar impact on the PERS and TRS additional state contribution is reflected below (dollars in thousands):

Year	FY2024	FY2025	FY2026	FY2027	FY2028
PERS	\$(12,900)	\$(4,700)	\$(2,300)	\$(200)	\$ 2,800
TRS	\$(15,600)	\$(11,800)	\$(11,000)	\$(10,300)	\$ (9,600)
TOTAL	\$(28,500)	\$(16,500)	\$(13,300)	\$(10,500)	\$ (6,800)

While current projections show a reduction to the additional state contributions between FY2024 - 2028, projected future total additional state contributions beyond FY2028 are also expected to change (increases are projected after FY2028 for PERS, decreases are projected after FY2028 for TRS). As noted on page 3 of attached letter from Buck dated May 10, 2022, there are increases to the additional state contributions from FY 2030 - 2039 in the amount of \$188.8 million.

See attached letter from Buck dated May 10, 2022. As noted in the last paragraph on page 1 of the letter, "By shifting active members (and all future hires) from DCR to DB, the State will be taking on greater risk of higher [additional state] contributions in future years." Additionally, this same risk also applies to the State of Alaska-as-an-employer as a result of the passage of SB 55 in FY 2021.

It is important to note that there will be a net increase in FY 2023 State of Alaska-as-an-employer payroll contributions because projected FY 2023 payroll and beyond is projected to increase if this bill is implemented. The fiscal impact to the State of Alaska-as-an-employer is shown in a separate fiscal note, but is included on page 3 of 3 of this fiscal note to show the total impact of implementing HB 220. The net added increase to the State of Alaska-as-an-employer is expected to increase by \$385.4 million.

FISCAL NOTE ANALYSIS

STATE OF ALASKA
2022 LEGISLATIVE SESSION

BILL NO. CSHB 220(FIN)

Analysis

The amounts below are in \$000's.

Fiscal Year	Additional State Contributions - PERS			Additional State Contributions - TRS			Additional State Contributions - Total		
	Current	HB 220 CS-B	Incr/(Decr)	Current	HB 220 CS-B	Incr/(Decr)	Current	HB 220 CS-B	Incr/(Decr)
2023	33,933	33,933	0	91,029	91,029	0	124,962	124,962	0
2024	44,673	31,732	(12,941)	90,155	74,540	(15,615)	134,828	106,272	(28,556)
2025	31,743	27,027	(4,716)	76,956	65,109	(11,847)	108,699	92,136	(16,563)
2026	17,103	14,805	(2,298)	61,747	50,757	(10,990)	78,850	65,562	(13,288)
2027	17,307	17,117	(190)	63,023	52,738	(10,285)	80,330	69,855	(10,475)
2028	17,294	20,059	2,765	64,481	54,843	(9,638)	81,775	74,902	(6,873)
2029	17,564	23,117	5,553	65,898	56,984	(8,914)	83,462	80,101	(3,361)
2030	18,384	26,843	8,459	67,425	59,154	(8,271)	85,809	85,997	188
2031	19,379	30,854	11,475	69,065	61,601	(7,464)	88,444	92,455	4,011
2032	20,283	35,019	14,736	70,825	64,001	(6,824)	91,108	99,020	7,912
2033	21,279	39,700	18,421	72,724	66,429	(6,295)	94,003	106,129	12,126
2034	22,607	44,425	21,818	74,532	69,062	(5,470)	97,139	113,487	16,348
2035	23,847	49,494	25,647	76,706	71,724	(4,982)	100,553	121,218	20,665
2036	25,439	54,621	29,182	78,797	74,606	(4,191)	104,236	129,227	24,991
2037	26,787	59,791	33,004	80,991	77,515	(3,476)	107,778	137,306	29,528
2038	28,508	65,496	36,988	83,281	80,336	(2,945)	111,789	145,832	34,043
2039	30,300	71,455	41,155	85,638	83,467	(2,171)	115,938	154,922	38,984
Total	416,430	645,488	229,058	1,273,273	1,153,895	(119,378)	1,689,703	1,799,383	109,680

Fiscal Year	State-as-an-Employer Contributions - DB			State-as-an-Employer Contributions - DCR			State-as-an-Employer Contributions - Total		
	Current	HB 220 CS-B	Incr/(Decr)	Current	HB 220 CS-B	Incr/(Decr)	Current	HB 220 CS-B	Incr/(Decr)
2023	221,398	223,030	1,632	77,212	77,781	569	298,610	300,811	2,201
2024	230,844	275,576	44,732	80,468	26,304	(54,164)	311,312	301,880	(9,432)
2025	216,299	273,116	56,817	84,633	27,922	(56,711)	300,932	301,038	106
2026	200,553	263,750	63,197	88,763	29,362	(59,401)	289,316	293,112	3,796
2027	199,805	269,006	69,201	92,950	30,861	(62,089)	292,755	299,867	7,112
2028	199,443	275,469	76,026	97,181	32,323	(64,858)	296,624	307,792	11,168
2029	199,848	282,277	82,429	101,408	33,852	(67,556)	301,256	316,129	14,873
2030	201,056	290,085	89,029	105,708	35,310	(70,398)	306,764	325,395	18,631
2031	202,848	298,348	95,500	109,965	36,826	(73,139)	312,813	335,174	22,361
2032	204,935	307,026	102,091	114,155	38,255	(75,900)	319,090	345,281	26,191
2033	207,822	316,964	109,142	118,696	39,656	(79,040)	326,518	356,620	30,102
2034	211,269	327,086	115,817	123,299	41,107	(82,192)	334,568	368,193	33,625
2035	215,146	337,688	122,542	127,666	42,606	(85,060)	342,812	380,294	37,482
2036	219,465	348,679	129,214	132,213	44,008	(88,205)	351,678	392,687	41,009
2037	223,888	359,836	135,948	136,609	45,451	(91,158)	360,497	405,287	44,790
2038	228,950	371,846	142,896	141,036	46,782	(94,254)	369,986	418,628	48,642
2039	234,494	384,371	149,877	145,307	48,170	(97,137)	379,801	432,541	52,740
Total	3,618,063	5,204,153	1,586,090	1,877,269	676,576	(1,200,693)	5,495,332	5,880,729	385,397



May 10, 2022

Mr. Jim Puckett
Deputy Director/Chief Pension Officer
Division of Retirement and Benefits
State of Alaska
P.O. Box 110203
Juneau, AK 99811-0203

RE: Fiscal Note Analysis for HB 220 CS-B

Dear Jim:

As requested, we are providing a fiscal note analysis for HB 220 CS-B. This letter is an update to our letter dated May 6, 2022 with projected State contributions through FY39 added to Section A (see page 3).

In this letter, we use "HB 220 PERS members" and "HB 220 TRS members" to refer to PERS and TRS members, respectively, who are affected by HB 220 CS-B. Collectively, they are referred to as "HB 220 members".

HB 220 CS-B includes the following modifications to HB 220:

1. All HB 220 members (current active members of the DCR plans and all future hires) will be given a one-time election to enter the DB or DCR plan.
2. The authority to increase member contribution rates and/or reduce PRPA benefits for HB 220 members was changed from the Alaska Retirement Management Board (ARMB) to the DOA Commissioner.
3. The maximum member contribution rate was increased to 12% for all HB 220 members.
4. The member contribution rate for PERS Others HB 220 members was increased from 6% to 8%.
5. Normal retirement eligibility was changed for all HB 220 members.
6. Average compensation for TRS HB 220 members was changed from 3 years to 5 years.
7. To be eligible for healthcare benefits, HB 220 members must retire directly from active service. (Under HB 220, the current statutes would have changed such that an HB 220 member did not have to retire directly from active service to be eligible for healthcare benefits.)

Note: The changes in #1 through #3 do not affect our cost analysis.

Adverse plan experience (due to poor asset returns and/or unexpected growth in liabilities) or changes to more conservative assumptions will increase the PERS DB and TRS DB unfunded liabilities, resulting in higher contribution rates. **The impact of HB 220 CS-B on projected contribution rates depends on how large the PERS DB and TRS DB unfunded liabilities become. By shifting active members (and all future hires) from DCR to DB, the State will be taking on greater risk of higher contributions in future years.**

A. Impact of HB 220 CS-B on Projected State Contributions for FY23-FY28

State contributions for FY23-FY28 are projected to increase/(decrease) due to HB 220 CS-B as shown in the table below (assuming no actuarial gains or losses after June 30, 2021):

(\$ millions)	FY23 ¹	FY24	FY25	FY26	FY27	FY28	6-Year Total
Additional State Contributions							
• PERS	\$0.0	\$(12.9)	\$(4.7)	\$(2.3)	\$(0.2)	\$2.8	\$(17.3)
• TRS	<u>\$0.0</u>	<u>\$(15.6)</u>	<u>\$(11.8)</u>	<u>\$(11.0)</u>	<u>\$(10.3)</u>	<u>\$(9.6)</u>	<u>\$(58.3)</u>
• Total	\$0.0	\$(28.5)	\$(16.5)	\$(13.3)	\$(10.5)	\$(6.8)	\$(75.6)
State-as-an-Employer Contributions							
• PERS	\$1.6	\$44.7	\$56.8	\$63.2	\$69.2	\$76.0	\$311.5
• PERS DCR	<u>\$0.6</u>	<u>\$(54.2)</u>	<u>\$(56.7)</u>	<u>\$(59.4)</u>	<u>\$(62.1)</u>	<u>\$(64.9)</u>	<u>\$(296.7)</u>
• Total	\$2.2	\$(9.5)	\$0.1	\$3.8	\$7.1	\$11.1	\$14.8
Total State Contributions	\$2.2	\$(38.0)	\$(16.4)	\$(9.5)	\$(3.4)	\$4.3	\$(60.8)

State contributions are also projected to increase/(decrease) beyond FY28. On the following page, we summarize projected State contributions for FY23-FY39 (in \$000's).

To fully understand the overall impact of HB 220 CS-B on the State's projected contributions, we have to consider *all* sources of contributions, which includes a shifting of employer contributions between the DB plans and the DCR plans.

On pages 4-6, we have illustrated the impact of HB 220 CS-B on FY24 contributions (similar results would apply for FY25-FY28). Contribution rates are expressed as a percentage of DB/DCR pay. Contribution amounts on page 4 are in \$000's based on projected pay; contribution amounts on pages 5 and 6 are in \$millions based on projected pay.

- Page 4 – Development of projected employer and State contributions for FY24
- Page 5 – Sources of projected FY24 contributions (members, employers, State) for PERS DB/DCR
- Page 6 – Sources of projected FY24 contributions (members, employers, State) for TRS DB/DCR

¹ The FY23 Additional State Contribution amounts were adopted by the ARMB in October 2021, so there is no impact on FY23 Additional State Contributions. The FY23 contribution rates were adopted by the ARMB in October 2021. PERS DB/DCR payroll is projected to increase after reflecting HB 220 CS-B since employee retention is expected to be higher for those transferring to the DB plan. As a result, projected FY23 State-as-an-Employer contributions increase.

May 10, 2022

Mr. Jim Puckett

State of Alaska

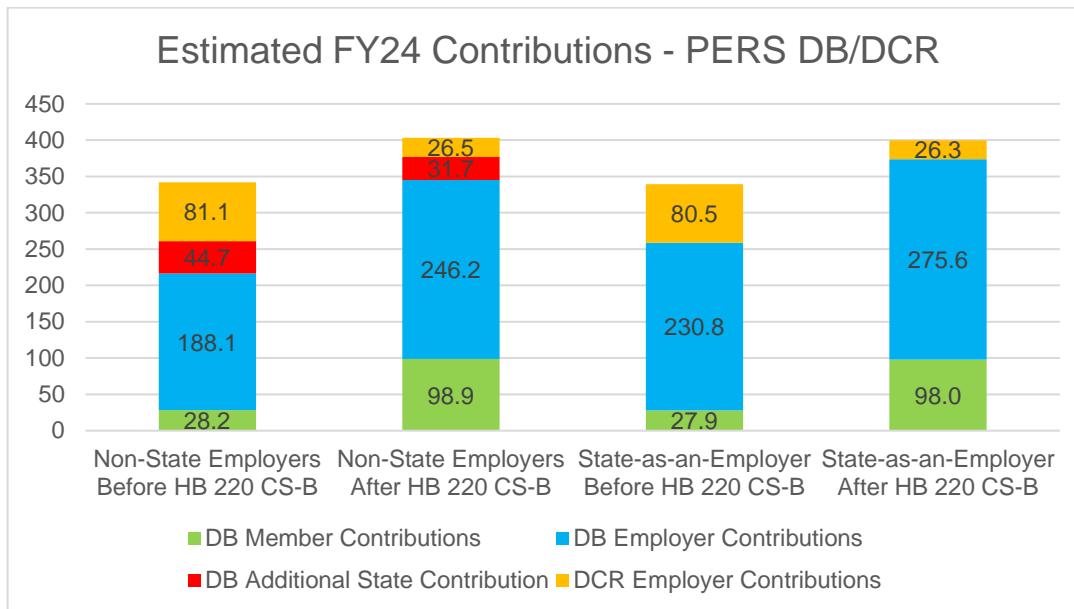
The amounts below are in \$000's.

Fiscal Year	Additional State Contributions - PERS			Additional State Contributions - TRS			Additional State Contributions - Total		
	Current	HB 220 CS-B	Incr/(Decr)	Current	HB 220 CS-B	Incr/(Decr)	Current	HB 220 CS-B	Incr/(Decr)
2023	33,933	33,933	0	91,029	91,029	0	124,962	124,962	0
2024	44,673	31,732	(12,941)	90,155	74,540	(15,615)	134,828	106,272	(28,556)
2025	31,743	27,027	(4,716)	76,956	65,109	(11,847)	108,699	92,136	(16,563)
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2027	17,307	17,117	(190)	63,023	52,738	(10,285)	80,330	69,855	(10,475)
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2031	19,379	30,854	11,475	69,065	61,601	(7,464)	88,444	92,455	4,011
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2034	22,607	44,425	21,818	74,532	69,062	(5,470)	97,139	113,487	16,348
2035	23,847	49,494	25,647	76,706	71,724	(4,982)	100,553	121,218	20,665
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2039	30,300	71,455	41,155	85,638	83,467	(2,171)	115,938	154,922	38,984
Total	416,430	645,488	229,058	1,273,273	1,153,895	(119,378)	1,689,703	1,799,383	109,680

Fiscal Year	State-as-an-Employer Contributions - DB			State-as-an-Employer Contributions - DCR			State-as-an-Employer Contributions - Total		
	Current	HB 220 CS-B	Incr/(Decr)	Current	HB 220 CS-B	Incr/(Decr)	Current	HB 220 CS-B	Incr/(Decr)
2023	221,398	223,030	1,632	77,212	77,781	569	298,610	300,811	2,201
2024	230,844	275,576	44,732	80,468	26,304	(54,164)	311,312	301,880	(9,432)
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2039	234,494	384,371	149,877	145,307	48,170	(97,137)	379,801	432,541	52,740
Total	3,618,063	5,204,153	1,586,090	1,877,269	676,576	(1,200,693)	5,495,332	5,880,729	385,397

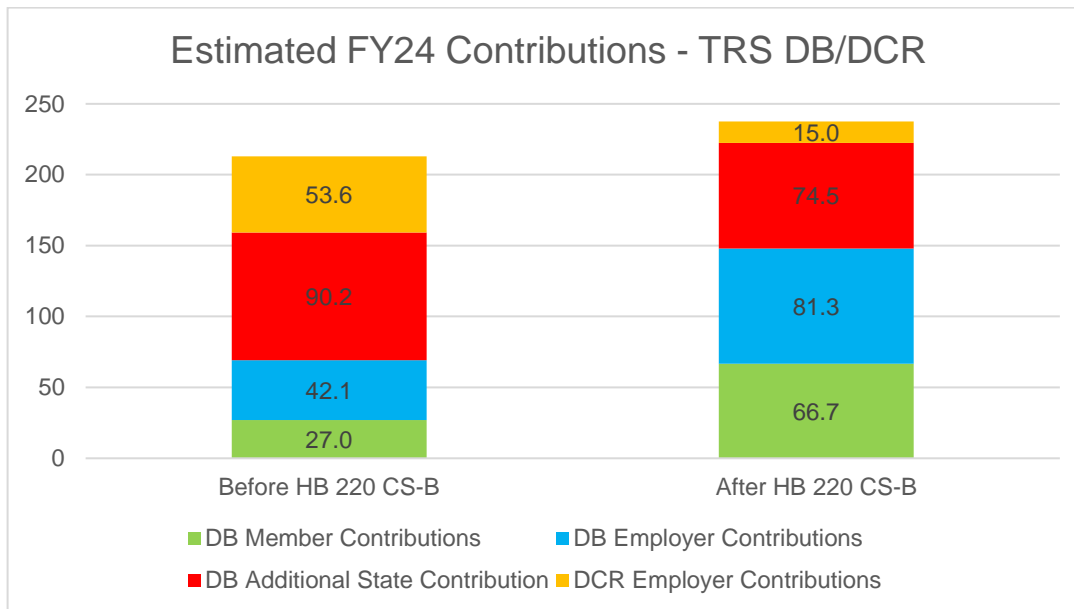
The amounts below are in \$000's.

FY24		PERS - Non-State Employers			PERS - State-as-an-Employer			TRS		
		Current	HB 220 CS-B	Change	Current	HB 220 CS-B	Change	Current	HB 220 CS-B	Change
1	Projected Pay	1,223,929	1,239,522	15,593	1,213,691	1,229,153	15,462	762,084	766,871	4,787
2	DB Normal Cost	81,513	197,807	116,294	80,832	202,973	122,141	57,418	121,143	63,725
3	DB Normal Cost Rate									
3a	- Total	6.66%	15.96%	9.30%	6.66%	15.96%	9.30%	7.53%	15.80%	8.27%
3b	- Employee (excl. indebtedness)	<u>2.02%</u>	<u>7.70%</u>	<u>5.68%</u>	<u>2.02%</u>	<u>7.70%</u>	<u>5.68%</u>	<u>3.07%</u>	<u>8.23%</u>	<u>5.16%</u>
3c	- Employer [3a - 3b]	4.64%	8.26%	3.62%	4.64%	8.26%	3.62%	4.46%	7.57%	3.11%
4	Unfunded Liability Amortization Rate	<u>14.38%</u>	<u>14.16%</u>	<u>-0.22%</u>	<u>14.38%</u>	<u>14.16%</u>	<u>-0.22%</u>	<u>12.90%</u>	<u>12.75%</u>	<u>-0.15%</u>
5	DB Contribution Rate [3c + 4]	19.02%	22.42%	3.40%	19.02%	22.42%	3.40%	17.36%	20.32%	2.96%
6	DCR Contribution Rate	<u>6.63%</u>	<u>2.14%</u>	<u>-4.49%</u>	<u>6.63%</u>	<u>2.14%</u>	<u>-4.49%</u>	<u>7.03%</u>	<u>1.96%</u>	<u>-5.07%</u>
7	DB/DCR Contribution Rate [5 + 6]	25.65%	24.56%	-1.09%	25.65%	24.56%	-1.09%	24.39%	22.28%	-2.11%
8	Employer Statutory Contribution Rate	22.00%	22.00%	0.00%	n/a	n/a	n/a	12.56%	12.56%	0.00%
9	Employer Contribution Rate									
9a	- DB [8 - 9b] or [5]	15.37%	19.86%	4.49%	19.02%	22.42%	3.40%	5.53%	10.60%	5.07%
9b	- DCR	<u>6.63%</u>	<u>2.14%</u>	<u>-4.49%</u>	<u>6.63%</u>	<u>2.14%</u>	<u>-4.49%</u>	<u>7.03%</u>	<u>1.96%</u>	<u>-5.07%</u>
9c	- Total [9a + 9b]	22.00%	22.00%	0.00%	25.65%	24.56%	-1.09%	12.56%	12.56%	0.00%
10	Employer Contribution Amount									
10a	- DB [9a x 1]	188,118	246,169	58,051	230,844	275,576	44,732	42,143	81,288	39,145
10b	- DCR [9b x 1]	<u>81,146</u>	<u>26,526</u>	<u>(54,620)</u>	<u>80,468</u>	<u>26,304</u>	<u>(54,164)</u>	<u>53,575</u>	<u>15,031</u>	<u>(38,544)</u>
10c	- Total [10a + 10b]	269,264	272,695	3,431	311,312	301,880	(9,432)	95,718	96,319	601
11	Additional State Contribution									
11a	- Rate [5 - 9a]	3.65%	2.56%	-1.09%	n/a	n/a	n/a	11.83%	9.72%	-2.11%
11b	- Amount [11a x 1]	44,673	31,732	(12,941)	n/a	n/a	n/a	90,155	74,540	(15,615)



FY24 Contributions – PERS DB/DCR	Rate (% of DB/DCR Pay)			Amount (\$millions)		
	Current	HB 220 CS-B	Change	Current	HB 220 CS-B	Change
Employers (Non-State)						
• DB	15.37%	19.86%	+4.49%	188.1	246.2	+58.1
• DCR	<u>6.63%</u>	<u>2.14%</u>	<u>-4.49%</u>	<u>81.1</u>	<u>26.5</u>	<u>-54.6</u>
• Total	22.00%	22.00%	0.00%	269.2	272.7	+3.5
Employers (State)						
• DB	19.02%	22.42%	3.40%	230.8	275.6	+44.8
• DCR	<u>6.63%</u>	<u>2.14%</u>	<u>-4.49%</u>	<u>80.5</u>	<u>26.3</u>	<u>-54.2</u>
• Total	25.65%	24.56%	-1.09%	311.3	301.9	-9.4
DB Employee	2.02%	7.70%	+5.68%	56.1	196.9	+140.8
DB Additional State Contribution	3.65%	2.56%	-1.09%	44.7	31.7	-13.0
DB Employer/State	19.02%	22.42%	+3.40%	463.7	553.5	+89.8
DB/DCR Employer/State	25.65%	24.56%	-1.09%	625.2	606.3	-18.9

- For non-State employers:
 - The total DB employer/State contribution rate **increases** by 3.40%.
 - Employers continue to contribute 22.00% of pay. The employer DCR contribution rate decreases by 4.49% and the employer DB contribution rate increases by 4.49%.
 - Because the employer DB contribution rate increase of 4.49% exceeds the total DB contribution rate increase of 3.40%, the Additional State Contribution rate **decreases** by 1.09%.
- For the State-as-an-Employer:
 - The State-as-an-Employer contributes the full contribution rate. The DB contribution rate **increases** by 3.40%, the DCR contribution rate **decreases** by 4.49%, so the DB/DCR contribution rate **decreases** by 1.09%.



FY24 Contributions – TRS DB/DCR	Rate (% of DB/DCR Pay)			Amount (\$millions)		
	Current	HB 220 CS-B	Change	Current	HB 220 CS-B	Change
Employer						
• DB	5.53%	10.60%	+5.07%	42.1	81.3	+39.2
• DCR	7.03%	1.96%	-5.07%	53.6	15.0	-38.6
• Total	12.56%	12.56%	0.00%	95.7	96.3	+0.6
DB Employee	3.07%	8.23%	+5.16%	27.0	66.7	+39.7
DB Additional State Contribution	11.83%	9.72%	-2.11%	90.2	74.5	-15.7
DB Employer/State	17.36%	20.32%	+2.96%	132.3	155.8	+23.5
DB/DCR Employer/State	24.39%	22.28%	-2.11%	185.9	170.8	-15.1

- The total DB employer/State contribution rate **increases** by 2.96%.
- Employers continue to contribute 12.56% of pay. The employer DCR contribution rate decreases by 5.07% and the employer DB contribution rate increases by 5.07%.
- Because the employer DB contribution rate increase of 5.07% exceeds the total DB contribution rate increase of 2.96%, the Additional State Contribution rate **decreases** by 2.11%.

B. Summary of HB 220 CS-B Benefit Provisions

HB 220 CS-B would allow active members who are in PERS DCR and TRS DCR to make a one-time irrevocable election to join PERS DB or TRS DB, respectively, within 90 days of the July 1, 2022 effective date of the bill. HB 220 CS-B also provides that all future PERS hires can elect to enter PERS DB or PERS DCR, and all future TRS hires can elect to enter TRS DB or TRS DCR.

The key benefit provisions applicable to HB 220 members are summarized below:

- Eligibility for normal retirement benefits:
 - PERS
 - age 65;
 - age 55 with at least 20 years of credited service (Peace/Fire only); or
 - age 60 with 30 years of credited service
 - TRS
 - age 60 or 30 years of service
- Eligibility for healthcare benefits will be the same as the current retiree medical eligibility provisions for members of PERS DCR or TRS DCR.
- To be eligible for retiree medical benefits, a member must retire directly from active service.
- Member contributions:
 - 8% of pay (can be increased by the DOA Commissioner to no more than 12% of pay)¹
- Average pay used to determine retirement benefits:
 - the 5 consecutive payroll years that yield the highest average
- Normal retirement benefit:
 - PERS Peace/Fire – 2% of average pay for the first 10 years of service, and 2.5% of average pay for service in excess of 10 years
 - PERS Others – 2% of average pay for the first 10 years of service, 2.25% of average pay for the next 10 years of service, and 2.5% of average pay for service in excess of 20 years
 - TRS – 2% of average pay for the first 20 years of service, and 2.5% of average pay for service in excess of 20 years
- The Postretirement Pension Adjustment (PRPA) and Alaska residency-based COLA apply. The DOA Commissioner can reduce the PRPA for HB 220 members if the funded status of the trust attributable to HB 220 members is less than 90%².
- The pre-retirement death benefit paid as a survivor annuity is payable upon any death (not just those that are occupation-related). The amount of the survivor annuity is 40% of the member's salary at the time of death (PERS Others and TRS), and the greater of 50% of the member's salary at the time of death or 75% of the member's normal retirement benefit (PERS Peace/Fire). This applies to all PERS and TRS members, not just HB 220 members.
- Retiree medical benefits and member premiums are the same as under PERS DCR and TRS DCR. Surviving spouses are not eligible for medical coverage unless the member met, or would have met had he/she lived, the normal retirement eligibility requirements. Election to participate in the retiree medical plan must be made at the later of age 70 ½ or date of retirement. Retired members and spouses must pay the full monthly premium prior to being eligible for Medicare.

¹ For purposes of this analysis, we assumed no increases in member contribution rates for HB 220 members.

² For purposes of this analysis, we assumed no future reductions in PRPA benefits for HB 220 members.

C. Employer Contributions Under HB 220 CS-B

Employer contributions under HB 220 CS-B are unchanged from current statutory requirements:

- PERS – Each non-State employer contributes 22% of pay, and the State-as-an-Employer contributes the full actuarial contribution rate based on the payroll of its employees.
- TRS – Each employer contributes 12.56% of pay.

Employers will continue to contribute 3% of pay to the HB 220 member's Health Reimbursement Arrangement (HRA) plan trust in accordance with AS Section 39.30.370.

D. Assets to be Transferred to the DB Trusts

In performing our analysis, we assumed various amounts will be transferred to the PERS/TRS DB trusts as described below:

- a. The accumulated employee and employer contributions in each HB 220 member's Defined Contribution (DC) account will be transferred to the PERS/TRS DB pension trusts to purchase credited service for retirement benefits. The service purchase calculations will be made on an actuarially equivalent basis to be determined by the ARMB¹. If the amount transferred is insufficient to purchase all of the transferred member's DCR service, the member can create an indebtedness for the shortfall². If the amount to be transferred exceeds the amount needed to purchase all of the member's DCR service, the excess will remain in the member's DC account. If the transferred member terminates before becoming vested in PERS/TRS DB, only the transferred employee contributions with interest will be refunded.
- b. Assets in the PERS/TRS DCR retiree medical trusts will be transferred to the PERS/TRS DB healthcare trusts. The amounts to be transferred equal the lesser of (i) the DB healthcare Actuarial Accrued Liability as of June 30, 2021 for members who elect to transfer, and (ii) the market value of assets in the PERS/TRS DCR retiree medical trusts as of June 30, 2021.
- c. Assets in the PERS/TRS DCR occupational death & disability trusts will be transferred to the PERS/TRS DB pension trusts. The amounts to be transferred equal the DCR occupational death & disability Actuarial Accrued Liability as of June 30, 2021 for members who elect to transfer.
- d. The estimated amounts that employers are contributing in FY22 to PERS/TRS DCR for members' (i) occupational death and disability benefits, (ii) retiree medical benefits, and (iii) DC matching contributions will be deposited to the PERS/TRS DB trusts. We assumed the amounts in (i) and (iii) will be deposited to the PERS/TRS DB pension trusts, and the amounts in (ii) will be deposited to the PERS/TRS DB healthcare trusts. These amounts were estimated based on projected payroll.

¹ For purposes of this analysis, the actuarial equivalent basis reflects the assumptions used to determine liabilities for pension benefits in the June 30, 2021 actuarial valuations, except the retirement rates were a blend of 75% of the PERS/TRS DCR retirement rates and 25% of the PERS/TRS DB retirement rates.

² For purposes of this analysis, we assumed no employee indebtedness would be created.

The asset transfer amounts are summarized in the table below (in \$000's)¹:

Item	As of Date	PERS		TRS	
		Pension Trust	Healthcare Trust	Pension Trust	Healthcare Trust
(a)	June 30, 2021	\$1,202,245	\$ 0	\$ 434,008	\$ 0
(b)	June 30, 2021	\$ 0	\$ 180,884	\$ 0	\$ 67,278
(c)	June 30, 2021	\$ 5,997	\$ 0	\$ 28	\$ 0
(d)	June 30, 2022	\$ 83,023	\$ 16,565	\$ 30,004	\$ 3,517

E. Members Assumed to Transfer from DCR to DB

For those who transfer, there will be an additional cost in PERS/TRS DB and a reduction in cost in PERS/TRS DCR. The overall net cost impact will depend on (i) how many members transfer and (ii) which members transfer. All results shown in this letter assume 100% of eligible members will elect to transfer from PERS/TRS DCR to PERS/TRS DB². The actual costs of HB 220 CS-B will be based on the actual number and demographics of the members who elect to transfer.

We determined the PERS/TRS DB service purchase amounts based on the Actuarial Accrued Liability of pension benefits in PERS/TRS DB (using the June 30, 2021 valuation assumptions and the blended retirement rates described in Section F of this letter). For each individual, a comparison was made between their pension Actuarial Accrued Liability and DC account balances as of June 30, 2021 (employee and employer) that were provided to us. If the total of the DC account balances is equal to or greater than the pension Actuarial Accrued Liability, all of the member's DCR service was credited to PERS/TRS DB. If the total of the DC account balances is less than the pension Actuarial Accrued Liability, only a portion of the member's DCR service was credited to PERS/TRS DB³. For example, if an individual's total DC account balance is 90% of his/her pension Actuarial Accrued Liability, then 90% of his/her DCR service is credited to the DB plan. The results of this process are described below:

- **PERS – Peace Fire**
 - As of June 30, 2021, there were 2,358 PERS Peace/Fire active members in PERS DCR with approximately \$229M of DC account balances.
 - Of the 2,358 members, 1,553 members had DC account balances at least equal to their June 30, 2021 pension Actuarial Accrued Liability, so all of their DCR service was credited to PERS DB. The remaining 805 members had partial DCR service credited to PERS DB.
 - On average, approximately 92% of DCR service as of June 30, 2021 was credited to PERS DB.
 - Approximately \$190M of the DC account balances as of June 30, 2021 (approximately 83% of the total) was assumed to be transferred to the PERS DB pension trust.
- **PERS – Others**
 - As of June 30, 2021, there were 21,583 PERS Others active members in PERS DCR with approximately \$1,243M of DC account balances.
 - Of the 21,583 members, 12,681 members had DC account balances at least equal to their June 30, 2021 pension Actuarial Accrued Liability, so all of their DCR service was credited to PERS DB. The remaining 8,902 members had partial DCR service credited to PERS DB.
 - On average, approximately 90% of DCR service as of June 30, 2021 was credited to PERS DB.

¹ Amounts as of June 30, 2021 will be increased with expected return to the July 1, 2022 effective date.

² For purposes of this analysis, we also assumed all future hires will enter the DB plans.

³ For purposes of this analysis, we did not assume any indebtedness would be created for the shortfall.

- Approximately \$1,013M of the DC account balances as of June 30, 2021 (approximately 81% of the total) was assumed to be transferred to the PERS DB pension trust.
- TRS
 - As of June 30, 2021, there were 5,521 TRS active members in TRS DCR with approximately \$568M of DC account balances.
 - Of the 5,521 members, 4,148 members had DC account balances at least equal to their June 30, 2021 pension Actuarial Accrued Liability, so all of their DCR service was credited to TRS DB. The remaining 1,373 members had partial DCR service credited to TRS DB.
 - On average, approximately 96% of DCR service as of June 30, 2021 was credited to TRS DB.
 - Approximately \$434M of the DC account balances as of June 30, 2021 (approximately 76% of the total) was assumed to be transferred to the TRS DB pension trust.

F. Additional Notes

The assumptions and methods used in our analysis are the same as those described in the draft June 30, 2021 actuarial valuation reports, except the retirement rates used to determine the costs and liabilities for the “with HB 220 CS-B” scenario was a blend of 75% of the PERS/TRS DCR retirement rates and 25% of the PERS/TRS DB retirement rates. For purposes of this analysis, we did not assume any increases in HB 220 member contributions under AS Sections 39.35.160(e), 39.35.160(f) and 14.25.050(e).

The FY23 contribution rates adopted by the ARMB in October 2021 were reflected in our analysis. The FY23 DCR contribution rates were recalculated for the “with HB 220 CS-B” scenario assuming all active members in the DCR plans as of June 30, 2021 transfer to the DB plans.

The percentage of total PERS DB/DCR payroll represented by the State’s employees based on the June 30, 2021 data (approximately 50%) was assumed to remain constant in all future years.

The projection assumptions are the same as those outlined in Section 3.1 of the draft June 30, 2021 actuarial valuation reports, except we removed the Normal Cost rehire load in all years after FY22 for the “with HB 220 CS-B” scenario.

This study includes only estimated costs/savings due to the net effects on the employer Normal Cost and Unfunded Actuarial Accrued Liability as eligible members transfer from PERS/TRS DCR to PERS/TRS DB. The study does not include other costs/savings that may be incurred by employers outside of PERS/TRS DB or PERS/TRS DCR (e.g., costs associated with potential anti-selection issues that may arise when individuals are presented with a choice between the DB and DCR plans, or savings in recruitment and training costs due to expected higher retention under the DB plans).

The ARMB, staff of the State of Alaska, and HB 220 CS-B bill sponsors may use this letter for purposes of analyzing the potential cost impact of HB 220 CS-B. Use of this letter for any other purpose or by anyone other than the Board, staff of the State of Alaska or HB 220 CS-B bill sponsors may not be appropriate and may result in mistaken conclusions because of failure to understand applicable assumptions, methods or inapplicability of the letter for that purpose. Because of the risk of misinterpretation of actuarial results, you should ask Buck to review any statement you wish to make on the results contained in this letter. Buck will not accept any liability for any such statement made without the review by Buck.

Future actuarial measurements and projections may differ from the current measurements presented in this letter due to such factors as: plan experience different from that anticipated by the economic and demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provisions or applicable law. An analysis of the potential range of such future differences is beyond the scope of this letter.

G. ASOP 51 Risk Discussion

Section 6 of the draft June 30, 2021 PERS and TRS actuarial valuation reports provide details regarding the risks underlying the funding of the plans. As described on page 1 of this letter, adverse plan experience (due to poor asset returns and/or unexpected growth in liabilities) or changes to more conservative assumptions could affect the impact of HB 220 CS-B on projected State contributions. **By shifting active members (and all future hires) from DCR to DB, the State will be taking on greater risk of higher contributions in future years.**

H. ASOP 56

Please see the draft June 30, 2021 PERS and TRS actuarial valuation reports for a discussion of the use of models in performing our actuarial services, which also applies to this HB 220 CS-B fiscal note letter.

I. Actuarial Certification

This letter was prepared under the overall direction of David Kershner, who meets the Qualifications of the American Academy of Actuaries to render the actuarial opinions herein. He is a Fellow of the Society of Actuaries, an Enrolled Actuary, a Member of the American Academy of Actuaries, and a Fellow of the Conference of Consulting Actuaries.

We would be pleased to discuss the results shown in this letter at your convenience. We can be reached at (602) 803-6174 (David), (216) 315-1929 (Scott), and (260) 423-1072 (Brett).

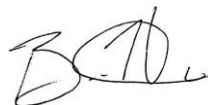
Respectfully submitted,



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